Cisco falls short of its high standards on compensation

September 30 2009, By Chris O'Brien

When I think of Silicon Valley companies I admire, Cisco Systems is usually one of the first that comes to mind.

It was no surprise, for instance, to see early last week that Cisco signed on to a high-profile report calling for stricter guidelines on executive pay to restore the public's trust in corporations. Produced by the Conference Board, a pro-business advocacy group, the report calls on companies to closely tie pay to performance, among other measures, to address the "public anger over executive compensation."

That's the kind of leadership I expect from Cisco and its CEO, John Chambers. What I don't expect is what happened two days later.

The company disclosed in a securities filing that it awarded "discretionary" bonuses to all employees -- including Chambers and other top executives -- despite missing its financial targets.

I can understand rewarding the rank and file. It's the decision to award bonuses to the top executives, particularly Chambers, that disappointed me.

I'm not here to say Cisco is evil. It's not -- there is in fact much to admire about this high-tech success story and Chambers' leadership. The problem is that this bonus decision creates the very perception that the task force claimed it wanted to address when it wrote that the general public viewed "executive pay as too generous, insufficiently related to

performance, and too often rewarding shortsighted behavior."

After asking a Cisco representative about this issue, the company e-mailed me the following statement:

"Cisco has a long tradition of rewarding all employees for performance and this year was no exception. Cisco's board awarded year-end discretionary bonuses for the company's 2009 fiscal year to all eligible employees -- 98 percent of non-commissioned employees, including our top five executives. The board considered Cisco's solid financial performance during a period of tough economic challenges, and the company's success in driving operational excellence and strong profitability. These bonuses were approximately 70 percent of last year's bonus awards."

True, but I hold Cisco to a higher standard, in particular because of the tone set by Chambers. After the dot-com crash, Chambers took a $1 salary when the tech industry hit a brick wall. He bought his own plane for corporate travel. And his current salary of $375,000 means he's vastly underpaid relative to many valley peers who make salaries in excess of $1 million.

When it comes to corporate pay, Cisco has usually been one of the good guys.

It's also worth noting that Cisco is somewhat a victim of bad timing here. Its fiscal year runs from the beginning of August through the end of July. That means its compensation committee set financial targets last summer just before the stunning collapse of Lehman Brothers and the ensuing meltdown. It didn't adjust them over the course of the year.

From the view inside the Cisco boardroom, what happened next looked no doubt heroic. The company shaved $1.5 billion in costs. Sales

dropped only 8.7 percent. Profit dropped only 23.8 percent. That's better than many peers, and far less damaging than the dot-com days.

But here's how it looked from the outside. About 1,500 to 2,000 employees were laid off. Dozens of janitors whose jobs were cut staged a hunger strike outside the Cisco campus. And a handful of executives got a bonus despite not hitting the targets that were clearly laid out. Fair or not, it looks like the kind of special treatment the Conference Board report is trying to address.

I wonder what would have happened if the economy had done the reverse and gone into hyperdrive. If sales had boomed, because of the general economic environment, and the financial targets had been exceeded, would the board have said, "The success of the company was the result of external factors, so we're trimming your bonus back"?

Of course not. Because too often with executive bonuses, it's heads you win, tails you win a lot.

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